



**MINUTES FROM THE INVESTMENT SUBCOMMITTEE
OF THE CASH MANAGEMENT POLICY BOARD
MAY 3, 2017**

A meeting of the Investment Subcommittee (the “Subcommittee”) of the Cash Management Policy Board (“Board”) was held on May 3, 2017, 10:00 a.m., in the main conference room of the Office of the State Treasurer (“OST”), located at 820 Silver Lake Blvd., Suite 100, Dover, DE 19904.

Subcommittee Members Represented or in Attendance:

Mr. John Flynn, Chair, (Telephonically)
Mr. Mike Karia, Co-Chair, Investment Subcommittee (Telephonically)
The Honorable Kenneth Simpler, State Treasurer
Mr. Richard Geisenberger, Secretary, Department of Finance

Subcommittee Members Not Represented or in Attendance:

Mr. Dave Marvin, Chair, Investment Subcommittee

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General, Department of Justice (Telephonically)
Mr. Stephen McVay, Director of Investments and Cash Management, OST
Ms. Susan Steward, Policy Advisor, OST
Ms. Jessie Ryan, Administrative Specialist, OST
Mr. John Krimmel, NEPC, Investment Advisor (Telephonically)
Mr. Ian Spencer, NEPC, Investment Advisor (Telephonically)

CALLED TO ORDER

The meeting was called to order at 10:01 a.m.

A MOTION was made by Treasurer Simpler and seconded by Secretary Geisenberger to approve minutes from the Subcommittee meeting on February 1, 2017.

MOTION ADOPTED UNANIMOUSLY

A MOTION was made by Mr. Karia and seconded by Treasurer Simpler to approve minutes from the Subcommittee meeting on April 7, 2017.

MOTION ADOPTED UNANIMOUSLY

NEPC PRESENTATION ON INVESTMENT STRUCTURE OPTIONS

NEPC provided the Subcommittee with an update on the Liquidity Analysis and Architectural Review. The Subcommittee discussed, at length, the pros and cons of the two proposed investment structures (“unconstrained” and “constrained” waterfalls) and the differences between the two with regard to benchmarks and duration, with the “constrained” waterfall investment structure having greater yield and higher duration risk. NEPC noted that either proposal would require amending the Guidelines but would not have any impact on permissible investments.

After much discussion the Subcommittee agreed that the constrained approach offered the best return while meeting the State’s liquidity needs and complying with its strict security requirements. The Subcommittee further determined to focus exclusively on the timing of liquidity and that changes to credit risk would be deferred to a later date. NEPC stated that they had seen other clients follow a similar process where intermediate steps are taken to get to a new investment structure in order to allow decision makers to gradually gain comfort with other proposed changes.

The proposed investment architecture (constrained waterfall) will be allocated (assuming a \$1,600 million average portfolio balance) to meet both anticipated liquidity needs (\$400 million) and unanticipated liquidity needs (\$1,200 million) and will be subject to the Board’s Guidelines.

Funds to cover anticipated liquidity needs will be allocated among two managers (with each account having a \$200 million average balance) and subject to section 6.0 of the Guidelines (Liquidity Accounts). These two accounts will alternate the shared responsibility of being the primary source of anticipated liquidity needs within a given fiscal year, based on historic seasonality in cash flows of public funds. These accounts will be completely liquidated during certain periods of the year before surplus funds are available for replenishment.

Funds to cover unanticipated liquidity needs will be allocated among four managers (with each account having a \$300 million average balance) and subject to section 7.0 of the Guidelines (Reserve Accounts). Further, these accounts will be structured in a hierarchy consisting of four tiers with each tier having a unique duration target, as expressed by the Board. Tiers one through four will have duration targets of one to three years, three to five years, five to seven years, and from seven to ten years, respectively.

A MOTION was made by Mr. Karia and seconded by Treasurer Simpler to recommend to the Board that it approve the “constrained waterfall without credit” investment structure.
MOTION ADOPTED UNANIMOUSLY

FY2016 ANNUAL REPORT

Treasurer Simpler informed the Subcommittee that a short form of the annual report was created and will be distributed prior to the Board meeting on May 24, 2017.

NEW BUSINESS

OST informed the Subcommittee that there has currently been no change in the status of House Bill 71.

PUBLIC COMMENTS

No members of the public present for comment.

NEXT MEETING

The next meeting is scheduled for August 2, 2017. (Subsequently this meeting was later rescheduled for August 9, 2017)

ADJOURNMENT

A MOTION was made by Mr. Karia and seconded by Treasurer Simpler to adjourn the meeting of the Subcommittee at 11:09 a.m.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David Marvin
Chair for the Investment Subcommittee

Mike Karia
Co-Chair for the Investment Subcommittee